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FARMERS' NEWSLETTER

Wheat



September 81/W-19

1982 Planting Decisions...

With the finish of the 1981 winter wheat harvest, thoughts turn to preparing land for the 1982 crop. Here are a few things to keep in mind when making your decisions...

- In all probability, there will be no wheat set-aside or diversion program for 1982. This sets the stage for planting decisions in a wide open, free market atmosphere.
- Current prospects point to a carry-over of around 1.03 billion bushels when the marketing year ends next May 31. This would be only the third time in the last 17 years that stocks have topped 1 billion bushels.
- This season's record wheat supply suggests that the average farm price will be below last year's \$3.96 a bushel. Current futures prices (July 1982 contracts) indicate that next year's prices may not be much improved.
- Production costs (national average, excluding land charges) for the 1981 crop are estimated at around \$3.80 a bushel and certainly will be higher next time around. Interest costs on operating money, along with fuel and fertilizer expenses, will probably be just as high if not higher.
- Even if you're satisfied with this year's excellent harvest, you should explore potential returns for other crops--assuming you have that option, and especially if you're in a Soft Red wheat area.

* * * * *

Tax Relief

The new Economic Recovery Tax Act of 1981 has many implications for farmers. You can now depreciate all farm cars and light trucks in 3 years, equipment in 5 years, and buildings in 15 years. The new law also gradually lowers estate taxes. For 1982, estates up to \$225,000 will be tax-exempt. By 1987, estates up to \$600,000 will not be taxed. As of January 1, 1982, estates or gifts of any size, willed or given to your spouse, are tax-free.

* * * * *

- If provisions of the new farm bill are well defined and enacted into law as you complete your planting decisions, you'll have fewer uncertainties to contend with. But don't count on it: Much work needs to be done before all the details are hammered out, and Mother Nature can't wait.

Prices Begin Season at Low Levels

This year's price picture has been dominated by record supplies and also by prospects for record disappearance.

Prices this season will hinge on the

The Farmers' Newsletter is written and published by USDA's Economic Research Service and approved by the World Agricultural Outlook Board.

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The next wheat newsletter is scheduled for mid-October.

RECORD SUPPLY AND DEMAND FORECAST

| | 1979/80 | 1980/81 Preliminary | 1981/82 Forecast* |
|------------------|---------|------------------------|----------------------|
| Million bushels | | | |
| Supply: | | | |
| Beginning stocks | 924 | 902 | 991 |
| Production | 2,134 | 2,370 | 2,747 ± 50 |
| Imports | 2 | 2 | 2 |
| Total supply | 3,060 | 3,374 | 3,740 ± 50 |
| Use: | | | |
| Food | 596 | 614 | 625 ± 5 |
| Seed | 101 | 114 | 107 ± 5 |
| Feed | 86 | 45 | 200 ± 50 |
| Exports | 1,375 | 1,510 | 1,775 ± 175 |
| Total use | 2,158 | 2,283 | 1,033 ± 180 |
| Ending stocks | 902 | 991 | 1,033 ± 180 |

Dollars per bushel

| | | | |
|-----------------|------|------|-----------|
| Avg. farm price | 3.78 | 3.96 | 3.70-4.00 |
|-----------------|------|------|-----------|

*As of August 13, 1981.

size of export sales, use of the loan and reserve program, and the impact of weather on world grain crops. The season average farm price is expected to fall slightly from last year's \$3.96 a bushel to between \$3.70 and \$4.00.

The record Soft Red harvest has depressed early season farm prices to the \$3.20-per-bushel loan level in many areas. In contrast, harvest delays, a frost-damaged crop, and limited producer selling have kept Hard Red Winter prices about on par with last year. Anticipated record harvests of Durum and Hard Red Spring wheat dropped prices to below \$4 for the first time since May 1980.

Early season prices are below the \$3.81 target price. Unless prices rebound dramatically by October, deficiency payments will be made for the first time since the 1978 crop. The payment rate could be 10 to 15 cents per bushel. Total payments would be about \$25 million for each cent that the June-October average price falls below the target price.

Outlook by Classes

Wheat, by itself, is often the headline in commodity news items. But as you well know, wheat is really a composite of five major classes. This makes production, supply, export, and price prospects for each class all-important to the producers of each. Initial class-by-class supply and use projections for the June 1981-May 1982 marketing season are shown in the table opposite. Current analysis indicates that:

- The 1981 Hard Red Winter (HRW) crop will be down 7 percent from last year's alltime high. That's because a mid-May freeze struck the Western Plains, destroying an earlier forecast for a record harvest. Yet, because of large old-crop stocks, this year's total supply will remain large. But with disappearance projected at an alltime high (another record export season) and large stocks in the reserve program, free HRW stocks could tighten considerably by season's end.

- A complete turnaround from last season's drought-reduced Hard Red Spring (HRS) harvest will result in record supplies, exceeding 700 million bushels for only the second time. This situation will weaken prices and in turn may encourage expanded foreign demand above last season's mediocre 188 million bushels. Competition may come from accelerated Canadian wheat exports and the generally very good protein content of the Hard Red Winter crop.

PRICES WEAK AT START OF SEASON

| States | May | | June | | July | |
|--------------------|------|------|------|------|------|-------|
| | 1980 | 1981 | 1980 | 1981 | 1980 | 1981* |
| Dollars per bushel | | | | | | |
| Illinois | 3.55 | 3.67 | 3.26 | 3.14 | 3.81 | 3.36 |
| Kansas | 3.44 | 3.81 | 3.48 | 3.78 | 3.62 | 3.62 |
| North Dakota . . | 3.94 | 4.23 | 4.33 | 3.99 | 4.83 | 3.70 |
| Oklahoma | 3.63 | 3.82 | 3.57 | 3.82 | 3.77 | 3.76 |
| Washington . . . | 3.65 | 4.25 | 3.67 | 4.09 | 3.78 | 3.97 |
| United States . . | 3.69 | 3.95 | 3.69 | 3.70 | 3.81 | 3.55 |

*Mid-month.

WHEAT BY CLASS¹

| Year beginning June 1, 1981 | Hard Winter | Soft Red | Hard Spring | Durum | White | Total |
|--------------------------------|----------------|-------------|------------------|------------------|-------|-------|
| Million bushels | | | | | | |
| Beginning stocks | 540 | 38 | 259 | 61 | 93 | 991 |
| Production | 1,102 | 658 | 452 | 186 | 349 | 2,747 |
| Supply, total | 1,642 | 696 | ² 712 | ² 248 | 442 | 3,740 |
| Domestic | | | | | | |
| disappearance | 407 | 221 | 178 | 56 | 70 | 932 |
| Exports | 755 | 420 | 220 | 80 | 300 | 1,775 |
| Disappearance, total | 1,162 | 641 | 398 | 136 | 370 | 2,707 |
| Ending stocks | 480 | 55 | 314 | 112 | 72 | 1,033 |

¹ Includes flour and products in wheat equivalent. ² Includes imports.

- Soft Red Winter (SRW) supplies are record large, depressing prices to their lowest in 3 years. This should make SRW attractive to world wheat bargain hunters. Estimated new season shipments could be over 100 million bushels above last year's record 299 million. Behind the big supplies: The 1981 crop was a bin-busting 658 million bushels. So far in the 1980's, the SRW crop has averaged more than 540 million bushels, versus 260 million during the 1970's.
- Because of excellent growing conditions, the 1981 White wheat harvest was forecast at a record 350 million bushels on August 1. This adds further to an enormous U.S. supply of soft wheats. Continuation of last year's strong export activity will depend on purchases by China, Egypt, Iran, and India--past large U.S. White wheat customers. The price of White wheat relative to SRW and West Coast freight cost advantages will figure in their decisions.
- Short supplies of quality Durum led to very strong prices last season, encouraging expanded plantings this spring. It looks as if improved growing conditions will result in record-high yields and a crop of about 186 million bushels. Because of the likely large supply, beginning season market prices slipped to the lowest level in 3 years. At lower prices,

both domestic and overseas sales of Durum should pick up this year, following a relatively sluggish 1980/81.

Reserve Opened for 1981 Wheat

Effective July 24, you may place 1981-crop wheat that is under CCC loan into the 3-year farmer-owned reserve program. But the provision (enacted last December) that waived interest charges for the first year in the reserve has been rescinded.

Also, only 700 million bushels of wheat can be in the reserve at one time. As of August 1, the reserve totaled 360 million bushels. A review of the current features that apply to the loan and reserve programs may help you firm part of your marketing strategy.

- You can place 1981 wheat under the regular loan at \$3.20 per bushel. The interest rate is 14.5 percent (subject to a semiannual review) and you may repay any time during the 9-month term.

- You can place the wheat into the recently opened reserve at \$3.50 per bushel. The interest rate is 14.5 percent--for the first year only. Thereafter, no interest is charged, as long as the national average farm price remains below the \$4.65 trigger price.

You will also receive a prepaid annual storage payment of 26.5 cents a bushel.

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Any time the trigger price is reached, the loan may be redeemed without penalty. If prices continue above the trigger price through the end of the month plus an additional 30 days, storage payments will end and the current interest charges will resume. Unearned storage payments must be refunded when the reserve loan is repaid.

- If you hold any outstanding 1980-crop wheat loans, you may convert these into the reserve program until December 31. You will receive an additional 30 cents per bushel above the \$3 loan, a prepaid 26.5 cents storage payment, and the loan will be interest-free. However, you can't sell that wheat without penalty until the \$4.48-per-bushel release price is reached.

- The penalty for early redemption is now calculated a bit differently. The penalty is based upon the time that has lapsed since the reserve was in release status. For wheat, release status ended 9 months ago. For wheat placed in the reserve after December, the penalty is based on the date of entry.

For example, as of September, total repayment of older reserve loans (those secured before last December) would require 1) the principal plus 9 months' interest, 2) all prepaid storage pay-

ments plus 9 months' interest, and 3) an interest surcharge on the principal equal to one-half of the loan rate at the time of repayment (7.25 percent) for 9 months.



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A 60-second summary of the latest crop, livestock, export, and economic news is available to you 7 days a week 24 hours a day. The following items from the September schedule may be particularly useful to wheat producers:

| | |
|----------|----------------------|
| Sept. 9 | Crops & Weather |
| 10 | Farm Trade Prospects |
| 11,12,13 | U.S. Crop Prospects |
| 14 | World Crop Prospects |
| 23 | Rice Situation |
| 29 | Crops & Weather |
| 30 | Farmers' Prices |

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